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FISCAL IMPACT STATEMENT

LS 6661

BILL NUMBER: HB 1116

NOTE PREPARED: Feb 22, 2013

BILL AMENDED: Feb 21, 2013

SUBJECT: Property taxes.

FIRST AUTHOR: Rep. Leonard

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill makes numerous changes concerning the administration of property taxes.

Township Fire: The bill authorizes townships to petition the Department of Local Government Finance (DLGF) in 2013 for permission to increase the township levy by the amount borrowed in 2012. It requires the DLGF to grant permission for the levy increase. The bill also removes an obsolete provision under which the DLGF had discretion to approve similar levy increases.

TIF Neutralization: This bill specifies that an adjustment to the base assessed value of an allocation area: (1) may not include the effect of the phase in of assessed value due to property tax abatements; and (2) may decrease base assessed value only to the extent that assessed values in the allocation area have been decreased due to annual adjustments or the reassessment under a reassessment plan. The bill specifies that assessed value increases attributable to the application of an abatement schedule may not be included in the base assessed value of an allocation area.

Controlled Projects: The bill specifies that any school building for academic instruction is: (1) subject to the petition and remonstrance process if the cost of the project is less than or equal to \$15,000,000; or (2) subject to the referendum process if the cost of the project is more than \$15,000,000. (Under current law the threshold is \$10,000,000 for elementary and middle school buildings and \$20,000,000 for high school buildings.)

The bill also provides that in determining whether a local government capital project is a controlled project and whether the petition and remonstrance process or the referendum process apply to the capital project, the cost

of the capital project does not include expenditures for the capital project that will be paid from donations or other gifts.

Assessment Changes: This bill specifies that real property may not be assessed, and its assessed value may not be increased, for a prior year, if: (1) the owner of the real property made certain changes to the real property; (2) the owner of the real property complied with applicable statutes concerning filing an assessment registration notice or obtaining permits for the changes; and (3) the assessing officials responsible for assessing the real property subsequently failed to make a correct assessment of the real property by failing to take into account the changes to the real property.

Effective Date: (Amended) January 1, 2013 (Retroactive); July 1, 2013.

Explanation of State Expenditures: *Reassessment Levy:* Under current law, counties must impose a property tax levy to fund the real property reassessment process. The DLGF must give notice to each county regarding the required levy for the reassessment fund each year. The DLGF may currently raise or lower the levy amount as the Department deems appropriate. Under this provision, the determination of the reassessment fund levy would be left to the county. The DLGF would have reduced administrative duties under this provision.

Local Budget Hearings: Under current law, the DLGF must hold a public hearing on each taxing unit's budget, levy, and tax rate. The hearings are held in the county in which the taxing unit is located. Under this provision, the DLGF would not be required to hold a budget hearing for a taxing unit unless at least one taxpayer requests that the hearing be held. Taxpayers may make their request on paper or electronically, and may send it through the county auditor or directly to the DLGF.

There are currently around 2,600 taxing units in the state. The DLGF would realize a savings of travel and publication expenses. There would also be a savings of employee hours that are currently devoted to hearings with no attendees. Actual savings would depend on the number of taxing units for which a hearing is not requested.

Explanation of State Revenues:

Explanation of Local Expenditures: *Circuit Breaker Reports:* This provision conforms to the reporting changes made in HEA 1072 (2012). Under current law, the county auditor must notify each taxing unit in the county of the amount of property tax collections lost to the tax caps. However, HEA 1072 (2012) shifted the responsibility to prepare the circuit breaker loss report from the county auditors to the DLGF. Under current law, the DLGF must post this report on its website. Under this bill, county auditors would no longer have these reporting requirements.

Government Modernization: This provision could increase local expenditures by an indeterminable amount for the preparation of a fiscal impact statement in cases where reorganization committees choose, under current law, not to prepare a fiscal impact statement.

Under the current government modernization law, a reorganization committee must prepare a reorganization plan. The plan must include a statement regarding whether or not a fiscal impact analysis has been prepared and whether or not it is publicly available.

Under this provision, the committee would be required to prepare a fiscal impact analysis. The analysis would

have to include (1) cost estimates for planned services, (2) anticipated net assessed value and funds affected by tax area, (3) financing methods for planned services, (4) estimates of maximum permissible levies, budgets, and tax rates, (5) the plan for reorganization and extension of services to areas being reorganized, and (6) the plan for providing or continuing services in areas not being reorganized.

Explanation of Local Revenues: *Township Fire:* Under this bill, townships may petition the DLGF in 2013 for an increase in the township fire maximum levy if the township had an emergency fire loan in 2012. The levy increase would be limited to the amount borrowed in 2012 and would first apply to taxes payable in 2014.

Townships that would qualify for a maximum levy increase under this bill borrowed operating funds in 2012 and consequently will impose debt service levies in 2013. If a township has a recurring need to borrow operating funds then the maximum levy increase allowed by this bill would not represent an increase in the township's overall property tax levy. For these townships, the increase in the fire fund levy under this bill would take the place of the debt service levy.

The number of townships that had emergency fire loans in 2012 and the total amount of those loans is not currently available. However, in 2012, twenty-one townships levied \$8.55 M to pay back emergency fire loans from 2011. If the 2012 emergency loan experience was similar to 2011, then townships could ask for up to \$8.5 M in increased fire protection maximum levies.

Cumulative Funds: Under current law, cumulative funds are rate-controlled. Each fund has a maximum tax rate which is adjusted each year to eliminate the effects of a general reassessment or annual adjustment. This provision makes changes to the adjustment formula to better conform to the enactment of cyclical reassessments in SEA 19 (2012).

(Revised) *Controlled Projects:* This provision would change the cost threshold at which all types of school buildings would be subject to the referendum process. Additionally, any part of the project's cost that will be paid from dedicated gifts and donations would not be considered when comparing the estimated cost to the threshold. These provisions would have varying effects by project as the new threshold would be either greater than or less than the current threshold depending on the building type.

Under current law, a capital project is considered a controlled project if it will cost the taxing unit more than the lesser of (1) \$2 M or (2) an amount equal to 1% of the unit's total gross AV (if that amount is at least \$1 M).

Currently, a controlled project for a school building for kindergarten through Grade 8 is subject to a referendum if the cost is more than \$10 M. A controlled project for a school building for Grade 9 through Grade 12 is subject to a referendum if the cost is more than \$20 M. Other controlled projects with a cost that exceeds the lesser of (1) \$12 M or (2) 1% of AV (if that amount is at least \$1 M) are also subject to a referendum. In addition, a taxing unit may specify that the public question process applies even if the project is not a controlled project.

Under the bill, a project for any type of school building would be subject to referendum only if the cost would exceed \$15 M. This change represents a \$5 M decrease in the threshold for grade 9 through 12 buildings, a \$5 M increase in the threshold for kindergarten through grade 8 buildings, and a \$3 M increase in the threshold for all other school buildings.

Emergency Fire Loans: This provision could reduce the amount of emergency fire loans and the property tax levies to repay them in cases where the loans are frequently sought.

Under current law, a township board may authorize the trustee to borrow money to meet unfunded needs for fire and emergency services. Emergency fire loans are repaid from proceeds of a special levy imposed in the following year. This bill would limit emergency borrowing to three years within any five year period.

TIF Neutralization: In some cases, this bill could result in higher base AV for taxing units and lower allocated AV for TIFs. The higher base AV would result in lower tax rates and potentially lower circuit breaker losses. Both the lower TIF AV and the lower tax rates would result in lower TIF proceeds. The extent of these changes is currently indeterminable and would depend on changes in AV going forward.

Background: Property taxes charged on new AV in a TIF allocation area are allocated to the local redevelopment commission. Allocated AV is excluded from the tax base (base AV) that is used to calculate property tax rates.

Under current law, the base AV in an allocation area is adjusted to reflect AV changes from general reassessments and annual adjustments. The adjustments may not include the effect of property tax abatements and they may not produce less TIF proceeds than if the general reassessment or annual adjustment had not occurred.

Under the bill, the base value could be reduced only to the extent that AV in the TIF area has been reduced because of a general reassessment or annual adjustment.

(Revised) Assessment Changes: This provision could reduce local revenues in certain cases where property taxes are billed for retroactive assessment changes due to structural changes in prior years.

Background: In some counties, when a real property assessment omission by the assessing official is discovered, the assessments for prior years are updated to reflect the changes to the property and the difference in taxes for those years is billed to the owner. Under this bill, if a property owner complied with all notice and permit requirements for the structural change then the assessor may not adjust prior year assessments to correct an error of omission by the assessor.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County auditors; Local assessors; County and municipal fiscal bodies; Local civil taxing units and school corporations.

Information Sources:

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